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UNCLAS SECTION 01 OF 03 JAKARTA 001728

SIPDIS

MCC FOR AMBASSADOR DANILOVICH AND MORFORD
MCC FOR MARIA LONGI
MCC FOR DEPUTY CEO RODNEY BENT
DEPT FOR E - U/S JEFFERY
DEPT FOR EAP DAS MARCIEL AND EB/IFD DAS DAVID NELSON
USAID FOR ADMINISTRATOR FORE
USAID FOR DEPUTY ADMINISTRATOR KUNDER AND ANE WARD
USAID/ODP FOR KAREN TURNER AND PETER DELP
USAID/ANE FOR STEPHAN SOLAT
TREASURY FOR A/S LOWERY
TREASURY/IA FOR RACHEL BAYLY
DEPT PASS USTR FOR SCHWAB
DEPT PASS USTR FOR ELENA BRYAN
DEPT PASS USTR FOR FRAN HEUGEL
DEPT PASS USTR FOR AUSTR BARBARA WEISEL
OMB FOR JACQUELINE STRASSER

E.O. 12958: N/A

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SUBJECT: SUCCESS OF INDONESIA'S MCC THRESHOLD PROGRAM

¶1. Summary: Indonesia's Millennium Challenge Corporation (MCC) Threshold Program is in full-stride, exceeding expectations in both its areas of focus, Control of Corruption and Immunization Rates. Since being awarded the largest MCC Threshold Program in November 2005, the Government of Indonesia (GOI) has embraced the extensive judicial sector reforms at the Supreme Court; leveraged MCC assistance at the Corruption Eradication Commission to expand prosecutions; enhanced anti-money laundering capacity at the Financial Intelligence Unit; and initiated on-line procurement processes under the e-Government Procurement component. Concurrently, the GOI Ministry of Health has actively partnered with the MCC Threshold Program, World Health Organization (WHO) and UNICEF to capture accurate immunization coverage data that reflect a higher-than-expected coverage rate. Indonesia's strong performance on its Threshold Program should be clearly articulated to the MCC Board members in their consideration of Compact-eligible countries in December 2008. End summary.

A POSITIVE TRACK RECORD

¶2. At its November 2005 Board meeting, MCC selected Indonesia to participate in the Threshold Program based on the country's strong track record on reform. The two-year, \$55 million Threshold Program focuses on "Control of Corruption" (\$35 million) and "Immunization Rates" (\$20 million), two areas where Indonesia fell short on its FY 05 MCC indicator Scorecard. Indonesia's strong performance on its Threshold Program to date bolsters the country's steadily improving MCC indicator scores, particularly the upward trend under the "Control of Corruption" indicator which has risen steadily over the past five years. The Threshold Program projects, managed by USAID Indonesia, run from approximately May 2007 through May 2009.

CONTROL OF CORRUPTION

¶3. The Threshold Program's \$35 million Control of Corruption component builds capacity at the Corruption Eradication Commission (KPK); the Financial Transaction Reports and Analysis Center (PPATK, Indonesia's Financial Intelligence Unit); the Supreme Court; and the National Development Planning Agency's (BAPPENAS) e-procurement

agency. A review of progress to-date by specific threshold goals is as follows:

1A. Reforming the Judiciary: Long regarded as a bastion of corruption and poor governance, the Supreme Court has embraced the MCC reform agenda, yielding impressive results:

--The implementation of an interactive Code of Conduct curriculum and training program. Court judges have been trained as trainers and over 1500 judges have received intensive Code of Conduct training.

-- The Supreme Court issued a decree requiring all judges and registrars to submit wealth reports as a condition for promotion or transfer consideration.

--MCC has sponsored training to over 1200 Court budget and finance personnel on the Ministry of Finance's new budget system and software, the first major budget reform program since Dutch colonial times. Budget transparency and publication protocols are being developed across the Court.

--Breaking new ground for a court system not historically comfortable with public scrutiny, the Court adopted a "Transparency Decree" establishing guidelines for access to court information. The Court has now published over 4900 decisions online with MCC assistance. (see <http://www.putusan.net/app-mari/putusan/>).

--The Supreme Court has achieved specific bureaucracy reform milestones as conditions for increased allowances for Court personnel. Completed initiatives include job descriptions and performance standards for all positions within the court system, as well as a court remuneration plan.

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--The Court is completing inventory of physical assets in over 700 courts, along with training of personnel in asset management and implementation of an asset tracking system.

1B. Improve the Capability of the Financial Transaction Reports and Analysis Center (PPATK): MCC support is primarily focused on promoting Anti-Money Laundering capacity by increasing the level of suspicious transaction reports reported to the PPATK by Non-Bank Financial Institutions, which include insurance companies, capital markets, pension funds, leasing/finance companies, and money changing operations. PPATK has already exceeded its MCC Threshold Program target for the level of Non-Bank Financial Institutions reporting on suspicious transaction reports. This initiative works in close collaboration with Bank Indonesia and the KPK, and includes the following accomplishments:

--Training of almost 200 authorized money changer businesses on monitoring techniques.

--A nationwide "Know Your Customer" media campaign (television, print) promoting use of only authorized money changers.

1C. Improve the Capability of the Corruption Eradication Commission (KPK): At the end of 2007, Parliament selected entirely new KPK senior leadership. The KPK has built on the success of the previous leaders and become even more aggressive in fighting corruption:

--The KPK has surpassed its MCC performance indicator for the prosecution of high-ranking government officials:

2007 Prosecution Target: 4 Actual: 10
2008 Prosecution Target: 6 Actual (as of 31 Jul 08):8

--The KPK and MCC are co-funding an Integrity Survey in 40 national government institutions to identify factors leading to corrupt practices.

1D. Implement Electronic Government Procurement (e-GP). The GOI is implementing electronic government procurement systems both at the national level and, as supported by this MCC program, with pilot

projects in five provincial governments. All five centers are now fully equipped with necessary hardware, software, and internet connectivity. Two provinces (West Java and Gorontalo) have made their first electronic tenders.

PROMOTING INCREASED IMMUNIZATION COVERAGE RATES

14. The MCC Immunization project is integrating and strengthening the GOI's existing Expanded Program on Immunization (EPI) to ensure continued GOI ownership and post-project sustainability. EPI developed mass media and print packages to convince parents to fully immunize their children and to encourage key decision-makers to support local routine immunization programs with adequate funding. Diminishing vaccine stocks that had been a concern for several months have now been replenished. The Project support mechanism for Local Area Monitoring and supportive supervision is in place.

THRESHOLD PROGRAM IMMUNIZATION COMPONENT YIELDING RESULTS

15. The GOI deserves credit for undertaking serious, effective reform initiatives. And MCC has supported these efforts to produce key results:

--6,847 District Health Officers personnel trained in immunization program management during the first year, representing 69 percent of the two-year overall target.

--The immunization coverage baseline rate was established at 78 percent as a result of the national joint cluster survey conducted this year, providing the first reliable routine immunization coverage data by province since 2003.

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--Seventy-nine percent of health centers now use Local Area Monitoring tools, up from 49 percent.

--In the first year of the Project, 2.9 million children were immunized in priority provinces, representing 56 percent of the project's two-year target of 5.1 million.

--One hundred percent of Project priority districts (68) have implemented EPI action plans.

CONCLUSION

16. Indonesia's MCC Threshold Program is an ambitious component in President Yudhoyono's overall reform agenda to support a democratic, well-governed Indonesia that is a responsible and active member of the international community. The GOI's demonstrated commitment to reform and Indonesia's Threshold Program impressive results bode well for Indonesia's development and its consideration by the MCC Board in December.

HUME